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SUBJECT: Ontario Budget Focuses on Economic Stabilization

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11. (SBU) SUMMARY: Ontario's 2008 budget, unveiled on March 25, represents a concerted attempt by Premier Dalton McGuinty to take an active role in stabilizing and growing the Ontario economy. Against the wishes of the federal government, which has waged an on and off war of words with Ontario provincial officials over taxation policies, the budget contains only modest tax relief for Ontario businesses. McGuinty has proposed a wide range of spending measures in line with his election promises to "modernize" Ontario's workforce and aid ailing industries. Conservative leader John Tory criticized the budget for its "last-minute" spending spree on infrastructure that will "be here today and gone tomorrow" and the absence of corporate tax cuts to attract manufacturers to the province. END SUMMARY.

Ontario Government Focuses on Employment

12. (U) A C\$1.5 billion "Skills to Jobs Action Plan" is the centerpiece of Ontario's 2008 budget. Combined with other investment proposals, the government plans to invest nearly C\$2 billion in workforce training measures. The plan complements earlier initiatives such as the Next Generation Job Fund, the Ontario Automotive Investment Strategy (OAIS), and the Advanced Manufacturing Investment Strategy (AMIS). Ontario estimates that the initiatives will assist up to 20,000 unemployed workers who commit to a long-term training plan for a second career.

Investment and Business Promotion

13. (U) The budget proposes C\$750 million in tax cuts over four years. This is in addition to the C\$1.1 billion of corporate tax relief from FY2008 to FY2010 announced in Ontario's mid-year budget update in December 2007. Together, the mid-year 2007 budget update and this budget offer business tax relief of almost C\$600 million in FY08 and a further C\$500 million in FY09. Most prominent among tax relief measures is the elimination of the business capital tax retroactive to January 1, 2007, for businesses primarily engaged in manufacturing and resource activities. The government intends to eliminate the capital tax on all businesses by July 2010.

14. (U) The budget also proposes tax incentives for start-ups and "innovative firms." A 10-year Ontario income tax exemption is included for new corporations that commercialize intellectual property developed by Canadian universities, colleges or research institutes. The budget includes C\$300 million for new investments by the Ministry of Research and Innovation and tax credits to small companies conducting scientific research and development in Ontario. Provincial Finance Minister Dwight Duncan also announced a C\$4 million plan to collaborate with Ontario universities over the next three years to develop the financial services workforce. Toronto is the third largest financial center in North America after New York and Chicago, and the 15th biggest in the world. .

Infrastructure

15. (U) The budget includes a one-time C\$1 billion expenditure for infrastructure improvement, to be paid for out of the C\$5 billion FY2007 surplus. In FY2008, which begins on April 1, the province intends to spend C\$7.5 billion on transportation infrastructure including rail, road, and transit projects throughout the province with sizable amounts dedicated to supporting projects outside the Greater Toronto Area. The budget fully funds the province's half of the cost of the new Windsor access road that will link the end of highway 401 with the new Detroit River International Crossing (DRIC) bridge linking Windsor and Detroit. Access road construction is scheduled to begin in 2009.

Energy and the Environment

16. (U) The budget includes funds for the implementation of the Liberals' election promise to reduce electricity demand by 6,300 megawatts (MW), phase out the use of coal-fired electricity plants by 2014, and double the use of renewable energy. The replacement of coal-fired plants could mean a reduction of up to 30 megatons of greenhouse gas (GHG) emissions, the single-largest emissions reduction in Canada. The government also committed to consult with municipalities and the energy generation sector to structure property tax treatment of renewable energy facilities to promote the development of green energy. Ontario's nuclear industry will also benefit from increased funding for apprenticeship programs to develop skilled workers.

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Budget Deficit Eliminated

17. (U) The McGuinty government has eliminated the C\$5.5 billion deficit it inherited from its Progressive Conservative predecessors and is on track to achieve its third consecutive budget surplus. A C\$600 million surplus is forecast for 2007-2008. The province's accumulated debt-to-GDP ratio should improve from 25.2% in 2003-2004 to 16.2% by 2010-2011.

Opposition: Too Little, Too Late

18. (U) Conservative opposition leader John Tory, who currently does not hold a seat in the Ontario legislature, condemned the McGuinty budget as excessively interventionist and insufficient to stimulate economic growth in Ontario. He noted that Ontario was moving perilously close to becoming a "have-not" province under Canada's scheme of equalization payments among the provinces.

19. (U) Tory described the budget as "Dalton and Dwight's Deeper Downturn." Ontario, Tory asserted, is insufficiently prepared to deal with a prolonged downturn in either the Canadian or U.S. economy. Instead of industry-specific spending programs scattered across the province, Tory suggested that the Ontario government (and any Tory-led government) would focus on reducing the taxation and regulation burden on all residents. Only a thorough paring-back of government activity in Ontario would allow the province to improve its last-place rankings in economic growth, according to the PC leader.

110. (SBU) COMMENT: The general contours of McGuinty's budget bear no surprises and largely align with his activist governing philosophy and expansive campaign promises. Ontario's export-dependent economy continues to evolve, due in no small part, to the strong Canadian dollar, slowing U.S. economy, and higher oil prices. The budget is a reflection of his efforts to minimize pain resulting from the ongoing restructuring of the Ontario economy.

END COMMENT.

NAY